TESTIMONY OF R. H. HALL, JR.

FOR

DUKE POWER COMPANY

SCPSC DOCKET NO. 95-006-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE POWER COMPANY.

A. My name is R. H. Hall, Jr., and my business address is 400 South Tryon Street, Charlotte, North Carolina. I am General Manager, Fuels Purchasing for Duke Power Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology and graduated with a BS in Engineering in 1964. During college, I worked for a coal company and also for a mining equipment company. I joined Mill-Power Supply Company as a fuel trainee in the summer of 1964, progressed through various fuel purchasing positions and was appointed to my present position in March, 1978. I am a member of the North Carolina Coal Institute and the American Society of Mining, Metallurgical and Petroleum Engineers, Inc.

Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified in connection with the applications by the Company to adjust its electric rates and charges based solely on changes in the cost of fuel. My last testimony was presented in Docket No. 95-005-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fuel purchasing and practices for the period April - September, 1995. My testimony will also include a summary of our fuel purchases and fuel inventories.

Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated annually based on input data from several departments, including Forecasting, System Planning, Nuclear Production, Fossil Production, Operating and Fuel Purchasing.

2. Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements. Final review and approval are provided by Duke's Executive Committee.

3. Covering of Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Qualified Suppliers. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capacities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, entry into the spot market is made on a month-by-month basis.

7. Expediting. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc. This expediting data is used to prepare a monthly performance report on each supplier.

8. Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is also weighed at each station to verify freight charges assessed by the railroads.

9. Audits. The Company has audit rights in all its contracts. A formal audit of each contract is conducted by Duke's Internal Audit Department on a specified frequency or at any time a price adjustment is requested under the terms of the contract.

Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. The exhibits were either prepared by me or at my direction and under my supervision.

Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

A. Hall Exhibit 1 is a summary of fuel statistics for the period April - September, 1995. This shows the quantities consumed, quantities purchased, and the weighted average unit price for each fuel.

Coal prices showed a slight increase in the delivered cost per million BTU's due to an increase in transportation costs. The average delivered cost per ton of coal was $0.66 higher than the preceding six month period.

We did not need much spot coal to meet our burn until the months of August and September. The following

shows the monthly quantities of contract and spot coal purchased:

Month	Contract	Spot
APRIL	733,684	45,847
MAY	874,488	34,734
JUNE	921,135	51,705
JULY	806,474	38,744
AUGUST	885,887	220,756
SEPTEMBER	693,552	445,302
TOTAL	4,915,220	837,088

Prices for spot coal were relatively flat during the period of April-June. The dramatic increase in coal demand during July and August pushed prices higher. Prices continued to be higher in September as most consumers were replenishing inventories drawn down during August's record-breaking generation. Our coal burn during this period was approximately 1.2 million tons more than the burn in the previous six months. Oil prices were relatively flat with the average price per gallon being $0.02 more than previous period. Natural gas prices were $1.21 per MCF less than those of the previous period. The reductions were due to summer season pricing and lower prices under the contract for Lincoln County Turbine Station where most of the gas was consumed.

Uranium prices showed a marked reduction as a result of depressed spot uranium market.

Q. WHAT IS HALL EXHIBIT 2?

A. Hall Exhibit 2 shows inventories for each fuel category at the beginning and end of this reporting period.

Coal inventory dropped due to high burn during June, July, and August. Burn for this three month period was approximately 4.1 million tons. We made the decision to use more coal from inventory than to compete for a limited supply while all utilities were experiencing record burns. We did not want to push spot prices higher than they already were. We have continued to purchase additional quantities during September and October to increase our inventory prior to winter months.

Oil inventory showed an increase of approximately 6 million gallons. This represents the new inventory at the Lincoln County Turbine Station. Of the 13 million gallons on the system, 8.3 million are at the Lincoln Station. We want the system oil inventory to be higher as we enter the winter heating season when #2 oil is in greater demand and prices are normally higher.

Uranium inventory was higher than normal due to three batches of fuel to be delivered during October and November. Inventory should decline to less than One million pounds by the end of the year.

Q. WERE THERE ANY CHANGES TO DUKE'S COAL TRANSPORTATION RATES DURING THIS PERIOD?

A. Yes. Effective April 1, rates to the Allen and Marshall Steam Stations increased 0.5%. These same rates increased another 0.2% on July 1, 1995. Rates from the Norfolk Southern Railway to our Buck and Dan River Steam Stations increased 0.4% on May 15 and another 0.2% effective August 15, 1995.

Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND AVAILABILITY IN THE NEXT SIX MONTHS?

A. Oil and natural gas prices are expected to experience their seasonal increases as we get into the winter heating months.

Coal prices should remain relatively flat with possibly a slight decrease. Supply is presently greater than demand, however, an extremely cold winter will certainly impact the spot prices.

Coal transportation should also remain relatively flat with only certain rates being affected by RCAF indices.

Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

HALL EXHIBIT 1

FUEL PURCHASES AND CONSUMPTION

APRIL - SEPTEMBER, 1995

COAL	
Tons Burned	6,367,986
Tons Purchased	5,752,308
Avg. Mine Price/Ton	$31.26
Avg. Frt. Price/Ton	$10.53
Avg. Delivered Price/Ton	$41.79
Avg. Delivered Price/MMBtu	$1.6722
OIL	
Gallons Consumed	7,679,128
Gallons Purchased	13,638,876
Avg. Price/Gallon Purchased	$0.5454
NATURAL GAS	
Mcf. Purchased	1,734,709
Avg. Price Mcf.	$2.2714
URANIUM	
Pounds Purchased	945,126
Avg. Price/Pound	$8.66

HALL EXHIBIT 2

FUEL INVENTORIES

	3/31/95	9/30/95
COAL (TONS)	2,160,976	1,558,751
#2 OIL (GALLONS)	7,050,197	13,045,311
URANIUM (POUNDS)	939,994	1,534,994